

Message Text

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PAGE 01 BONN 12165 011605Z

51

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DEPARTMENT PASS TREASURY, CEA AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: ECON, EFIN, GW

SUBJECT: RESEARCH INSTITUTE PESSIMISTIC ON GROWTH
IN GERMAN ECONOMY

1. SUMMARY. THE IFO ECONOMIC RESEARCH INSTITUTE IN ITS RECENTLY ISSUED MID-YEAR ANALYSIS OF GERMAN BUSINESS CONDITIONS FORESEES REDUCED PRODUCTION FOR THE THIRD QUARTER, A POSSIBLE INCREASE TO 3 PERCENT IN UNEMPLOYMENT BY THE END OF THE YEAR, LITTLE POSSIBILITY FOR IMPROVED DOMESTIC INVESTMENT, AND, DUE TO A COOLING BUSINESS CLIMATE WITHIN THE NATIONS PRINCIPAL TRADING PARTNERS, A DECREASING DEMAND FOR GERMAN EXPORTS. END SUMMARY.

2. GERMANY'S RESPECTED ECONOMIC RESEARCH INSTITUTE (IFO) NOTES THAT IN GNP TERMS THE EXPORT SURPLUS AT DM 18 BILLION FOR THE FIRST HALF OF 1974 WAS APPROX-
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PAGE 02 BONN 12165 011605Z

IMATELY THREE TIMES THE LEVEL A YEAR AGO. HOWEVER,

IT OBSERVES THAT FOREIGN DEMAND IN REAL TERMS HAS STAGNATED SINCE THE FIRST OF THE YEAR, INDICATING THAT THE UPWARD TREND IN EXPORTS VOLUME MAY HAVE CEASED--ALTHOUGH CONSIDERABLE UNFILLED ORDERS REMAIN. IFO NOTES THAT THE EXPORT SURPLUS--WHICH HAD BEEN PREDICTED TO AMOUNT TO DM 40 TO 45 BILLION FOR 1974--MAY NOT BE REACHED. THE CURRENT ACCOUNT BALANCE, HOWEVER, IS STILL EXPECTED TO REACH DM 25 TO 30 BILLION COMPARED TO DM 12.1 BILLION LAST YEAR.

3. OBSERVING THAT THE CONTINUED HIGH EXPORT SURPLUS GENERATES BALANCE OF PAYMENT PROBLEMS IN OTHER COUNTRIES AND THEREBY INVITES IMPORT RESTRICTION, THE INSTITUTE SUGGESTS INCREASED DOMESTIC DEMAND AS THE ONLY CURE. IFO DOUBTS THAT THIS WILL OCCUR IN MONTHS AHEAD--DESPITE THE DISCONTINUATION OF THE STABILITY SURCHARGE TO THE INCOME TAX AND INCREASED DISPOSABLE INCOME.

4. THE INSTITUTE HAS RETREATED FROM ITS EARLIER OPTIMISTIC ESTIMATES FOR ECONOMIC GROWTH IN 1974 AND SUGGESTS THAT IT MAY REMAIN AT ABOUT 1.5 PERCENT. WHILE THE EMPHASIS IN THE PAST HAS BEEN ON SHORTENED WORKING HOURS THE COMING MONTHS ARE LIKELY TO BE CHARACTERIZED BY A GENERAL REDUCTION IN THE LABOR FORCE POINTING TO AN INCREASE FROM 2.7 PERCENT TO 3 PERCENT IN UNEMPLOYMENT (700,000 SEASONALLY ADJUSTED) BY THE END OF THE YEAR.

5. SURPRISINGLY ENOUGH, ACCORDING TO IFO, THERE HAS BEEN A DECREASE DURING THE FIRST MONTHS OF 1974 IN THE RATE OF PRICE INCREASES, PRESUMABLY DUE TO GENERAL INDUSTRIAL PRICE INCREASES ONLY PARTIALLY BEING PASSED ON TO THE CONSUMERS. THE INFLATION RATE OF 6.9 PERCENT IN JUNE (COMPARED TO 7.8 PERCENT A YEAR AGO) WILL LIKELY RISE SLIGHTLY DURING THE COMING MONTHS TO AROUND 8 PERCENT--DUE CHIEFLY TO THE SO-CALLED BASIS-EFFECT AND THEN FALL TO ABOUT 7 PERCENT BY THE YEAR END.

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PAGE 03 BONN 12165 011605Z

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